

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6929

BILL NUMBER: HB 1267

NOTE PREPARED: Jan 8, 2013

BILL AMENDED:

SUBJECT: Deduction for Military Retirement Pension Income.

FIRST AUTHOR: Rep. McNamara

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill phases in a deduction for military retirement pension income from the adjusted gross income tax. It provides that an individual who claims a deduction for military retirement pension income may not claim the income tax deduction generally allowed for military income.

Effective Date: January 1, 2014.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the change in the current deduction for military pension income. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - The bill phases in an increase in the military retirement pension income deduction to a full deduction over five years beginning in tax year 2014; and extends the military retirement pension income deduction to retirees under the age of 60 years beginning in tax year 2014. The revenue loss from the deduction changes would begin in FY 2015. The estimated annual revenue loss through the phase in period is summarized in the table below.

Fiscal Year	Revenue Loss (in millions of dollars)		
	Retirees 60 and Over	Retirees under 60	Total
2015	0.0	(1.8)	(1.8)
2016	(2.3)	(3.3)	(5.6)
2017	(5.1)	(5.1)	(10.2)
2018	(8.1)	(7.1)	(15.2)
2019	(11.2)	(9.1)	(20.3)

This estimate is based on pension and retiree count information from 2005 to 2012 from the U.S. Department of Defense (DOD), Defense Manpower Data Center. These data provide counts of military retirees residing in Indiana and annualized taxable retirement pay to those individuals. The estimates assume that the military retirees who are at least 60 years old are claiming the current military pension deduction of up to \$5,000.

Background: Current statute provides an AGI deduction for the first \$5,000 of military pension income or survivor's benefits received by an individual who is at least 60 years old. In 2012, the DOD reported that 25,666 military retirees reported that Indiana was their state of legal residence. These individuals received an estimated \$551.3 M in military pension income during the year. The number of military retirees reporting their residence as Indiana has increased by an average of 1.2% per year since 2005. Meanwhile, the total military pension income paid to these individuals has increased by about 3.2% annually since 2005. Also, according to DOD data, about 61% of the military retirees in Indiana are 60 years of age or older.

The bill phases in an increase in the military pension income deduction. Under the bill, military retirees who are 60 years of age or older can choose to take the current deduction for the first \$5,000 in military pension income received in the taxable year or the new deduction which is equal to a percentage of the military retiree's pension income as specified in the table below. The bill would also extend the military pension income deduction to military retirees who are under the age of 60. This group would be limited to taking the new deduction specified in the table below. Under the new deduction, military pension income would be fully exempt from income tax beginning in tax year 2018.

Tax Year	Proposed Deduction - % of Military Pension Income
2014	20%
2015	40%
2016	60%
2017	80%
2018	100%

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the changes to the military retirement pension income deduction will

decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of 1.45%, the estimated annual revenue loss through the phase in period is summarized in the table below.

Fiscal Year	Revenue Loss (in millions of dollars)		
	Retirees 60 and Over	Retirees under 60	Total
2015	0.0	(0.7)	(0.7)
2016	(1.0)	(1.4)	(2.4)
2017	(2.2)	(2.2)	(4.4)
2018	(3.4)	(3.0)	(6.4)
2019	(4.8)	(3.9)	(8.7)

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U.S. Department of Defense, Defense Manpower Data Center. OFMA Income Tax Return databases.

Fiscal Analyst: Jim Landers, 317-232-9869.